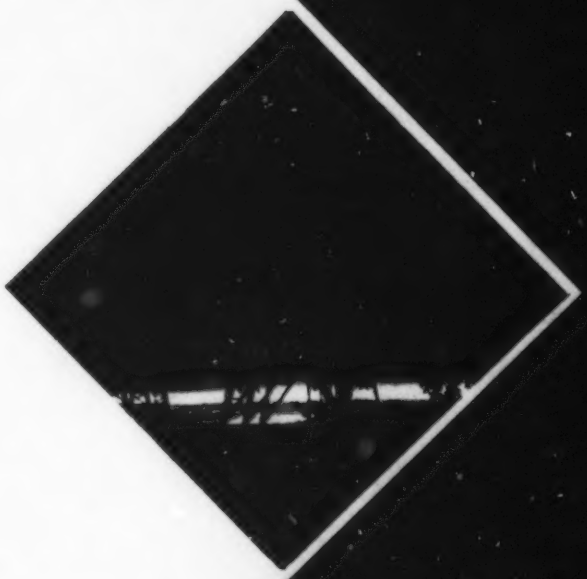
NEWFOUNDLAND AND LABRADOR HYDRO

HYDRO



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FOREWORD

Newfoundland and Labrador Hydro (Hydro) is the parent company of the Hydro Group of Companies, comprising Hydro, Churchill Falls (Labrador) Corporation Limited (CF(L)Co), Lower Churchill Development Corporation Limited (LCDC), Gull Island Power Company Limited (GIPCo) and Twin Falls Power Corporation Limited (Twinco).

This annual report is a consolidated review of Hydro and CF(L)Co operations during 1991. Non-consolidated financial statements for CF(L)Co, LCDC and Twinco are each published separately.

Hydro is the fourth largest utility in Canada in terms of installed generating capacity, by virtue of its controlling interest in CF(L)Co, whose massive underground powerhouse at Churchill Falls, Labrador is rated at over 5.4 million kilowatts.

While Hydro is principally a wholesaler of electricity and sells the bulk of its power to an investor-owned retail utility and several industrial customers, the Corporation also sells directly to nearly 30,000 customers living in rural and isolated communities in Newfoundland and Labrador who are not serviced by the retail utility.

A system map pinpointing Hydro facilities is found on the inside back cover of this report.

PHOTO THIS PAGE

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Via these three towers, CF(L)Co power begins its long journey to Hydro Quebec.

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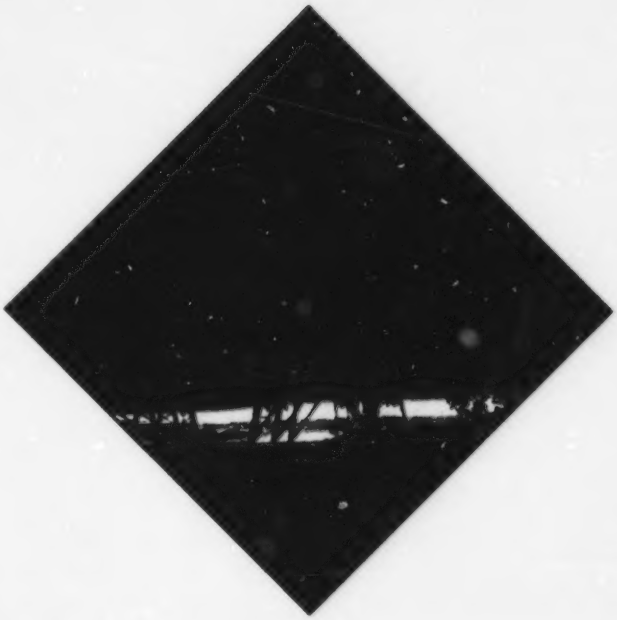

HIGHLIGHTS

- Construction completed on the Happy Valley-Goose Bay gas turbine
- Completion of the Holyrood Uprating Program
- Automatic Generation Control became operational
- First ILCI Four Star Rating in the Canadian Electrical Industry
- Labrador Diesel employees achieved one million hours without a lost time accident
- Demand Side Management Initiatives undertaken

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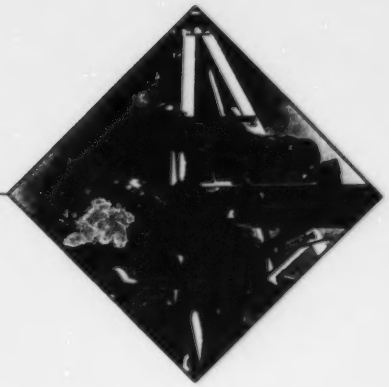


ENERGY PRODUCTION

Hydro's Island-interconnected system generating capacity is approximately 60% hydraulic and 40% thermal based. Hydro's objective is to generate electricity using the optimum hydraulic and thermal mix to ensure that the most cost-effective supply of electrical energy is made available to its customers. High reservoir levels at the end of 1990 and near average inflows this past year resulted in record hydraulic production in 1991. At year end, reservoirs were at 62% of full supply level compared with 74% at the end of 1990.

Gross energy generated from hydroelectric sources during 1991 amounted to 4,314 million kilowatt hours, 14.4% higher than in 1990. Hydro's gross energy production from all sources on the Island-interconnected system amounted to 5,843 million kilowatt hours, 1.9% higher than in 1990. Peak demand for 1991 was 1,281,000 kilowatts - down slightly from the record of 1,316,000 kilowatts established on February 3, 1990 - which resulted from abnormally cold temperatures and high winds on the Island on that date.

ENERGY SALES

Energy sales to Island-interconnected customers rose by 1.7% in 1991, reflecting growth in utility sales of 1.8%, industrial sales of 2.5% and a decrease in retail sales of 3.6%. Energy sales to industrial customers on the Labrador-interconnected system declined by 2.4%, reflecting a 14% reduction in secondary energy sales to one customer.

Hydro has approximately 30,000 rural customers, 72% of whom receive their electricity supply from either the Island or Labrador-interconnected systems. The remaining 28% of Hydro's rural customers are served from more costly generation sources in non-interconnected areas on the Island and in Labrador.

Energy sales to approximately 22,000 rural-interconnected customers on the Island and in Labrador amounted to 473.7 million kilowatt hours in 1991, an increase of 0.6% over 1990. Energy sales to the remaining 8,000 isolated rural customers amounted to 86.3 million kilowatt hours, an increase of 3.6% over 1990.

SYSTEM IMPROVEMENTS

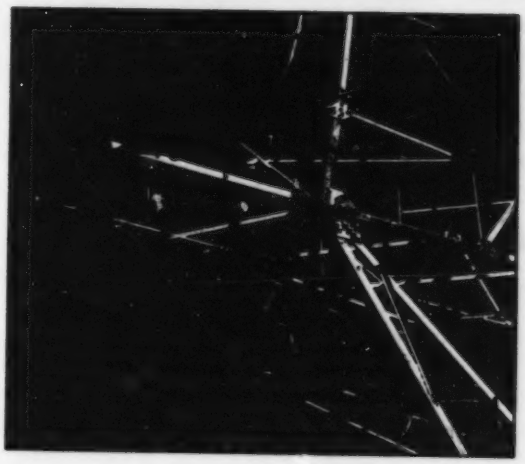
As the major generator and supplier of electricity in the province, Hydro continues to have a positive impact on the provincial economy. Its capital program, while lower than that of recent years, amounted to $44.5 million in 1991. Hydro's capital program is a reflection of the requirement to continue to meet increasing electrical demand and to improve the existing system so as to maintain a high level of customer service.

Additions to Hydro's generating capacity during the year focused on major improvements at our three-unit Holyrood thermal generating station and the installation of a 25,000 kilowatt gas turbine in Happy Valley-Goose Bay. The improvements at Holyrood constitute the final phase of a program, begun in 1987, to upgrade two units from 150,000 kilowatts to 175,000 kilowatts each and involved the replacement of major components in each unit at an overall cost of $22 million. Commissioning of the gas turbine in Happy Valley-Goose Bay commenced late in 1991 and it was expected to go into service during the first quarter of 1992.

The transmission portion of Hydro's 1991 capital program included the upgrading of three existing 230 kilovolt steel-tower transmission lines at a cost of $9 million. One of these lines runs between Buchans and Massey Drive, Corner Brook, on the west coast of the Island and the other two are on the Avalon Peninsula. These upgrades strengthened the lines so they may better withstand the extreme wind and ice loadings which have been experienced in these areas.

The energy transmission capability between Churchill Falls and Happy Valley-Goose Bay was increased with the addition of a capacitor bank on the Happy Valley-Goose Bay end of the 138 kilovolt transmission line at a cost of $1 million. Commissioning of this equipment had begun by year end and the unit was placed in service early in 1992.

Several years ago, exceptionally heavy rainfalls on the Island caused



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The generating station at Holyrood has three oil-fired thermal units.

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During 1991, modifications were made to several 230 kilovolt transmission facilities on the Island.

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An employee works on an insulator stack in Hydro's Bay D'Espoir switchyard.

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FIGURE A
GROSS SYSTEM GENERATION AND ENERGY PURCHASES

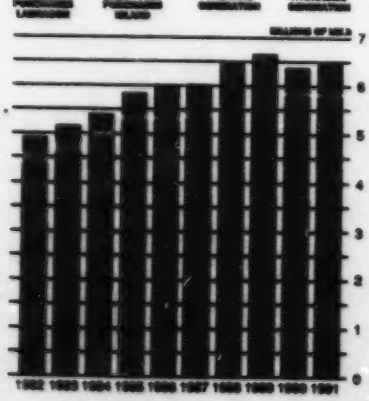


FIGURE B
GROSS GENERATING CAPACITY AND DEMAND

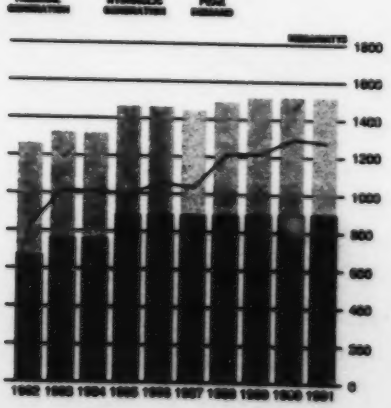
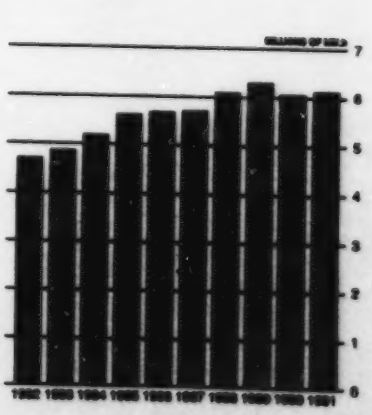


FIGURE C
ENERGY SALES



Hydro to reassess its flood handling capability. The reassessment indicated that improvements should be made at various points on Hydro's Bay D'Espoir reservoir system. These improvements, initiated in 1987, were completed in 1991 and involved the installation of additional emergency spillway capacity at Burnt Pond, as well as modifications to the Victoria River spillway gates.

Many reliability improvements were made on the interconnected high voltage system in 1991. One of these was the installation of new circuit switchers at the Bottom Brook terminal station, which will allow better system operational flexibility in supplying the Burgeo and Port aux Basques areas.

As part of its plans to improve the power system, Hydro is continuing to implement measures to preserve and protect the environment. In 1991 Hydro began a program to eliminate polychlorinated biphenol (PCB) substances from transformers located at Bay D'Espoir and Holyrood. By year end the Holyrood transformers containing PCB material had been drained and refilled with an environmentally acceptable fluid. The program will be completed in 1992 when the transformers at Bay D'Espoir will be similarly treated. All waste PCB material removed from the transformers is being held in appropriate containers until a government-approved incinerator is made available for the destruction of the material.

At several isolated diesel generating sites, improvements to fuel handling and fuel storage facilities were completed during the year. These included increasing fuel storage capacity, installing spill-containment facilities and upgrading fuel transfer piping systems.

Hydro, the Provincial Department of Environment and Lands and Environment Canada are developing a procedure for the treatment of waste water at our Holyrood Generating Station. The procedure will provide for the treatment and disposal of waste water and establish standards for the quality of effluent discharged from the new $4.2 million waste water treatment facility scheduled to come into operation in early 1992.

OPERATIONS

The maintenance of Hydro's generation, transmission and distribution facilities involved, as in other years, a variety of significant undertakings.

In addition to continuing normal maintenance of Hydro's generating facilities, planned upgrading of the surge tanks at the Bay D'Espoir plant was completed during the year. This included coating the internal surfaces of the tanks and installing a protection system to minimize internal corrosion.

Underwater inspections of the Hinds Lake power canal were carried out in 1991 as part of a continuing inspection program that began in 1984. Such

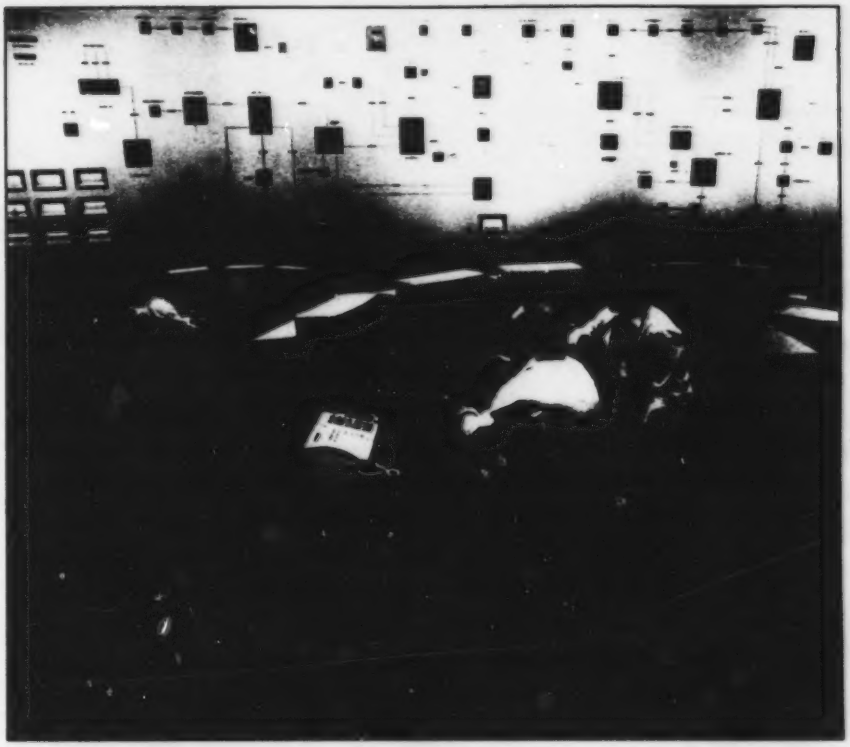
inspections, which are a key feature of the maintenance program for the power canal, disclosed no abnormalities in the condition of the power canal in 1991.

Hydro continued its annual inspection program of its extensive system of dykes and dams with the assistance of a four member Dyke Board comprised of independent international experts. Recommendations for improvements following the 1991 inspections were minor in nature.

Hydro is continuing to build on the efficiencies already achieved in 1990 with the commissioning of its Energy Control Centre (ECC). In 1991, improvements in energy management included the installation of automatic generation control (AGC) capabilities which transferred control of all hydraulic units at the Bay D'Espoir, Cat Arm, Hinds Lake and Upper Salmon plants to the ECC. In addition, a system for economic energy dispatch became operational in June as did computerized power system analysis functions. Hydro has achieved an availability factor of 99.97% from its Energy Management System.

Hydro's Telecontrol Department is acting as the project manager for a major microwave communications system between the Churchill Falls generating station and the Hydro-Québec power system. This project began in 1991 and will span several years. The Telecontrol Department also completed preliminary work to develop a VHF radio system between Churchill Falls and Happy Valley-Goose Bay.

Several improvements were also made to Hydro's power system to enhance performance and improve protection. These included the replacement of mechanical relays on the 230 kilovolt transmission



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Systems operators at the Energy Control Centre at Hydro Place monitor and manage the power supply on the Island grid.

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One of three surge tanks at the Bay D'Espoir hydroelectric facility, this structure stands 113 metres high.

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The West Salmon Spillway provides enhanced flood handling capability to the Bay D'Espoir reservoir system.

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system with new micro-processor-based relays and the completion of a preliminary study of critical clearing times for various lines and feeders. Installation and commissioning of new metering equipment to facilitate the measurement of coincident peaks for our utility customer was also completed.

The rural systems in the White Bay area and on the Great Northern Peninsula were also upgraded when insulators on 66 kilovolt lines were replaced to give greater reliability of service.

The diesel generating plants at Nain and Makkovik on the Labrador coast were changed from fully-attended status to semi-attended status during 1991, enabling a reduction in the staff complement and placed the operation of these two plants on the same basis as other isolated plants of similar size.

Unfortunately, the diesel generating plant at Hopedale on the coast of Labrador was destroyed by fire in October of 1991. However, through an exceptional effort by Hydro employees and with the generous assistance of others in the community, power was restored to the community within 40 hours. The temporary generating facilities served the community well throughout the winter and plans are underway for the construction of a new powerhouse during 1992.

ELECTRICITY RATES

Hydro applied in November of 1991 to the Public Utilities Board (PUB) for an increase, effective May 1, 1992, in the rates it charges its utility and rural customers. The major reason for this application was full implementation of a decision by Government to phase-out the subsidization of rural electrical rates. The phase-out was completed in 1991.

The PUB had requested, at a previous Hydro rate referral, that Hydro present at its next hearing an analysis of the costs of serving its rural customers, and that it also identify an appropriate split "demand" and "energy" tariff for its utility customer. Hydro thus identified a new cost-of-service methodology that satisfied both the information needs of the PUB and Hydro's revenue objectives. This information formed part of Hydro's 1991 rate referral.

Additionally, Hydro requested that the PUB review and approve both an interim short-term "gross interest coverage" of 1.10 times gross interest and reconfirm the 1.15 times to 1.25 times gross interest coverage range previously approved by the PUB. Hydro further argued that its debt to equity ratio target should be at least 80/20.

Hydro's application was opposed by several of its major customers and community groups at a public hearing. The PUB decision is expected in the Spring of 1992.

HYDRO PEOPLE

The staff complement of the Hydro Group at year end stood at 1,239 people, virtually the same level as it was ten years ago, making Hydro one of the largest employers in Newfoundland and Labrador.

Several years ago Hydro instituted a Loss Control Program to improve both workplace safety and operating effectiveness. The success of this program was evidenced in 1991 when employees in Transmission and Rural Operations (TRO) Labrador West were presented with the prestigious Advanced Audit Four Star Award - the first in the Canadian electrical industry - by the International Loss Control Institute (ILCI). Adding to this success, employees in Hydro Generation and in Telecontrol also received the same award before year end. As well, a Hydro employee was recognized by the Institute with the "Excellence In Auditing" award, one of only seven given, for his achievements among his 630 international peers.

In another safety achievement, the employees of the Diesel Operations section in the Labrador Region received the congratulations of their co-workers in 1991 upon reaching the milestone of one million employee hours worked without a lost time accident - a work effort spanning the period from January 1, 1977 to December 31, 1990.

In another important initiative, the collaborative efforts of Hydro Management and its unionized workforce resulted in the implementation of a Pay Equity Program during 1991. Hydro became the first major employer in the province to implement a Pay Equity Program for all of its female-dominated job classifications.

Hydro's employees can look back on 1991 with pride. Their considerable success and achievements have helped make it possible for Hydro to meet its operational and financial targets. Working under the added pressures of fiscal restraint and a reduction in the staff complement, Hydro people are to be commended for a job well done.

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Hydro and its staff were distinguished with four safety awards from ILCI in 1991.

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A meeting of some Management Information Systems (MIS) analysts at Hydro Place. Left to right: Helen Sinclair, Doug Randell, Fred Bishop and Geoff Hillyard.

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Two Hydro line workers carry out maintenance in one of the 230 kilovolt transmission towers located at the Holyrood terminal station.

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TOWARDS THE FUTURE

A substantial portion of Hydro's activity is concentrated in the area of planning for the Province's future electrical needs. As part of its continual planning process, Hydro has assessed its current generating capability in the context of recent load forecasts. This assessment shows that, without corrective action, Hydro can expect to experience deficits in capacity and energy in the mid-1990's. The traditional approach used by Hydro, and indeed by all other major utilities until recently, was to plan to add additional generating capacity to avoid energy deficiencies. However, in response to growing public support for energy conservation, new approaches to preventing energy supply deficiencies have emerged in our industry.

Hydro is devoting considerable attention to examining ways to moderate the demand for electricity. This is commonly referred to as Demand Side Management (DSM) and is viewed by Hydro as a potential source of capacity in the next few years. Hydro, in partnership with its utility customer, completed a study of DSM potential on the Island during 1991 and determined that approximately 17,000 kilowatts of additional capacity and 30 million kilowatt hours annually can be saved through residential and commercial DSM programs by the mid-1990's.

In addition to assessing independent opportunities which may be feasible for its own rural customers, Hydro is continuing to work closely with its utility customer to implement cost-effective DSM initiatives. Additionally, Hydro is discussing, with its major industrial customers, the potential for interruptible

demand contracts that would start in the Fall of 1993. Initial indications suggest a potential to reduce system peak load by over 100,000 kilowatts using cost-saving arrangements that are attractive for both Hydro and its industrial customers.

Hydro has also started a program that will result in the replacement of all six turbine runners in its Bay D'Espoir Generating Plant, which was commissioned in the late 1960s. When completed, the new turbine runners are expected to produce approximately 10,000 kilowatts of additional capacity and between 56 million and 78 million kilowatt hours of additional energy annually.

Finally, Hydro is preparing to issue a call for proposals from private developers for the supply of up to 50,000 kilowatts of capacity and associated energy, to be delivered by the mid-1990's.

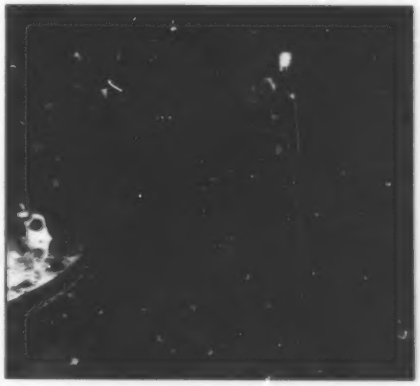
The combined effect of these initiatives will enable Hydro to defer the occurrence of projected energy deficiencies until the late 1990's.

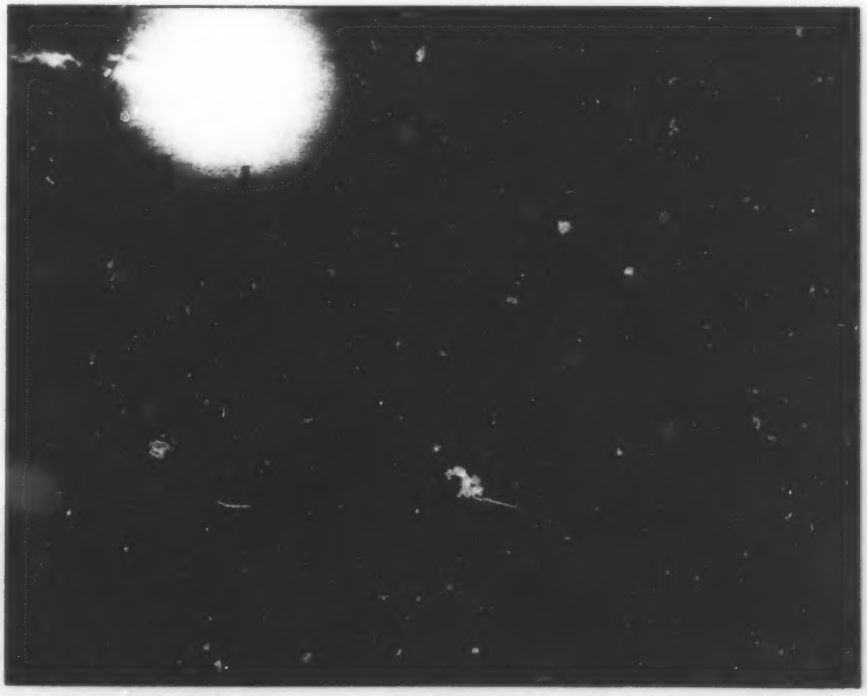
Beyond its supply and demand initiatives, Hydro's planning activities in 1991 included provisions for expansion to its transmission and terminal facilities involving:

- Addition of one transformer at its Hardwoods Terminal Station near St. John's to meet future load requirements;
- Continuation of a program, begun in 1990, to modify the Bay D'Espoir Terminal Station to improve reliability;
- Modifications, similar to those at Bay D'Espoir, to the Western Avalon Terminal Station;
- Grounding system improvements and insulator replacements on its transmission system to improve reliability.

EXECUTIVE CHANGES

On December 31, 1991 Cyril J. Abery, Chairman and Chief Executive Officer, retired from his position. His duties as Chairman of the Boards of The Hydro Group was assumed by a non-management person, Mr. James R. Chalker, Q.C. Mr. David W. Mercer, President of Newfoundland and Labrador Hydro, assumed additional responsibility as Chief Executive Officer of the Hydro Group of Companies.





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Rodney Fudge and Keith MacDonald work on a turbine at Bay D'Espoir.

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A typical Hydro switchyard: This one is located at Holyrood.

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This Pelton wheel turbine runner is part of the power generation equipment found at the Cat Arm hydroelectric facility.

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Reliability modifications are planned for the Bay D'Espoir Terminal Station in 1992.

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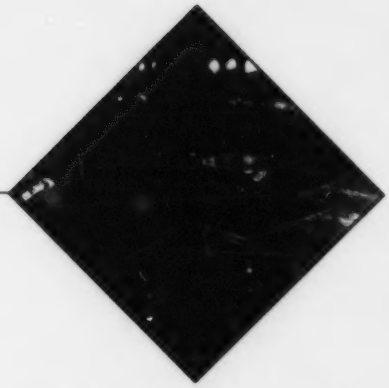
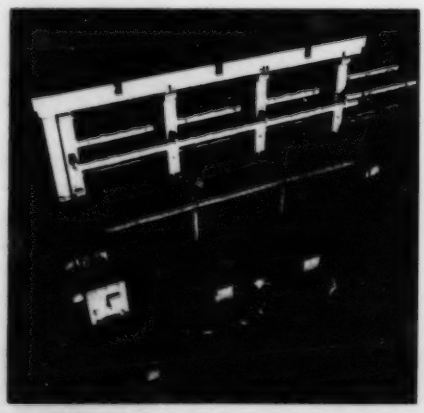
CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED



ENERGY: PRODUCTION AND SALES

Energy production at the Churchill Falls hydroelectric generating station in 1991 amounted to 29.44 billion kilowatt hours. This represented an increase of 0.5% over the previous year and a 15.8% reduction below the long-term average for the plant. Precipitation in the watershed during the hydraulic year, which ended August 31, was 7% below average, making 1991 the eighth consecutive year when inflows to the reservoir were below the long-term average.

Energy deliveries to Hydro-Québec during 1991 amounted to 26.33 billion kilowatt hours, an increase of 0.8% over the previous year. Energy deliveries to Labrador customers amounted to 2.47 billion kilowatt hours, a decrease of 2.2% from 1990.



PLANT OPERATIONS AND MAINTENANCE ACTIVITIES

The overall plant availability factor for 1991 was 86.5% and the plant operating factor was 70.9%, both virtually the same as in the previous year.

Maintenance of the plant and facilities, both preventive and corrective, is carried out according to a carefully prepared plan based on industry standards and experience gained in the 20 years of operation of the Churchill Falls facility. All annual inspections on the power generating equipment were completed on schedule and within budget. In addition, 97% of all preventive maintenance assignments on the power facilities were completed in the year. This compares very favourably with the historical average of 94%. As well, two of the generating units were re-wedged during the year.

The annual inspection of all dykes and hydraulic structures was carried out by the Dyke Board of Consultants during the latter part of August. While recommendations were made following the inspection, none was considered unusual in the context of the continuing operation of the Churchill Falls facilities. The recommendations were prioritized and a schedule was prepared to deal with them.

Two 230/735 kilovolt autotransformers required extensive repairs during 1991. Both units were returned to Churchill Falls during the year and one was placed in service while the second will serve as a spare. As well, one 500 MVA, 15/230 kilovolt generator step-up transformer was returned to Churchill Falls following repairs.

As part of our program to improve overall reliability and availability of the power generation and delivery systems, orders were placed during 1991 for several major pieces of equipment including power transformers, generator windings and high voltage switching equipment for use as system spares.

A bushing failure occurred on a 333 MVA autotransformer during March, causing extensive internal damage to the transformer. As a result, the unit was transported to the factory for a complete rewind. Because this was the sixth bushing failure since the commissioning of the system, all of these specific type transformer bushings will be replaced with those of a more proven design.

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(Left) The Lobstick Control Structure directs the flow of water from the Smallwood Reservoir to the West Forebay.

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(Opposite Page) The powerhouse at Churchill Falls, measuring 296 by 25 metres, houses 11 generating units.

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CAPITAL IMPROVEMENTS

Four new housing units were constructed in the Churchill Falls townsite, thereby completing phase 2 of a program to alleviate the housing shortage currently being experienced by permanent staff.

Other items included in the Company's capital program for the year included the purchase of replacement mobile equipment, the completion of a new VHF radio communications system and continuation of the installation of a Supervisory Control And Data Acquisition (SCADA) System which is scheduled to be operational in 1992.

In addition, two 25 MVAR capacitor banks were installed at the Wabush Terminal Station by an industrial customer. In addition to assisting in the commissioning of this equipment, CF(L)CO has assumed responsibility for its operation and maintenance.

EMPLOYEE RELATIONS

Contract negotiations with both the Operations and Office and Support Workers units of IBEW Local 2351 continued into 1991 and new collective agreements were negotiated for a three year period expiring December 31, 1993.

A senior management change took place in Churchill Falls during 1991 when Mr. David W. Reeves, Vice-President of Operations and Engineering, relocated to St. John's to assume the responsibilities of the position of Vice-President, Engineering and Construction for Hydro. Mr. Samuel D. Banfield, the incumbent in the latter position, replaced Mr. Reeves in Churchill Falls.

The International Advanced Safety Rating Audit completed in June resulted in Churchill Falls attaining a Three Star rating. This award is the direct result of the hard work, dedication and commitment of all employees to maintain a safe, healthy and productive workplace.

While energy production at Churchill Falls was again below the long-term average because of climatic conditions, CF(L)Co's employees can look with pride to a successful year in which all major operational and financial objectives were met.

TOWN OF CHURCHILL FALLS

Throughout 1991, the Town continued to play a major support role for all CF(L)Co employees particularly in the educational, recreational and social environment.

As a measure of interest in CF(L)Co, 1,155 visitors were given guided tours of the facilities during 1991. This number is expected to increase dramatically with the opening of the highway between Churchill and Labrador City.

PLANNING AHEAD

CF(L)Co continues to formulate and refine its planning for future operations and has identified several key items that, when completed, will further improve the high level of reliability of the power generation and transmission system. These major undertakings include:

- Completion of the SCADA System;
- Unwatering and inspection of gate No. 3 at the Lobstick Control Structure;
- Rewedging of two generating units;
- Completion of the 735 kV transformer bushing replacement program;
- Installation of remotely operated precipitation and hydraulic gauging stations at selected locations within the reservoir;
- Construction of four new housing units;
- Implementation of the primary recommendations of the Dyke Board.

CONSOLIDATED FINANCIAL PERFORMANCE (HYDRO AND CF(L)Co)

NET INCOME

Hydro's consolidated net income for 1991 amounted to $23.0 million, an increase of $1.3 million from 1990.

REVENUE

Gross revenue for 1991 was $370.0 million compared with $359.4 million in 1990. This increase of $10.6 million is primarily due to the following:

- sales volume to the utility customer in 1991 increased by 1.8% and when combined with the full year's effect of the July 1, 1990 rate increase, served to increase revenue by $11.0 million;
- revenue from sales and government subsidies to rural customers, decreased by $8.0 million as compared to 1990, mainly due to the phase out of the government subsidy;
- the volume of sales to industrial customers increased by 1.7% which increased overall revenue by $0.8 million;
- CF(L)Co's revenue increased by $7.0 million.

EXPENSES

Total expenses for 1991 amounted to $340.3 million compared with $329.0 million in 1990, an increase of 3.4%.

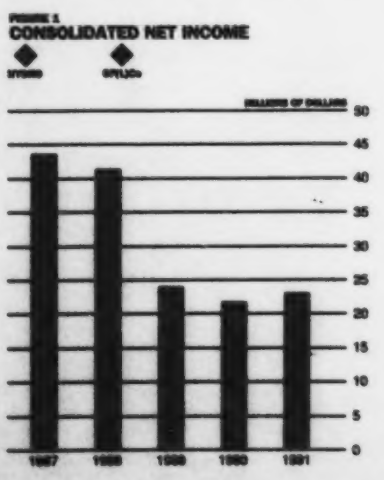
The total cost of fuel and power purchased was $58.5 million in 1991, an increase of $3.8 million over 1990. This increase was primarily due to the increased volume of firm energy sales.

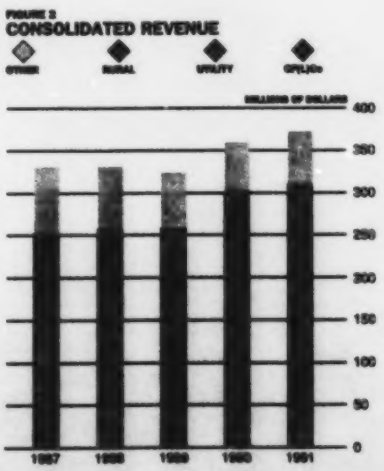
Operations and administration costs amounted to $97.4 million in 1991, an increase of $6.0 million from 1990. The lower amount for 1990 reflects a credit to operations and administrative costs for the surplus of $5.9 million realized on the wind up of the two private pension plans.

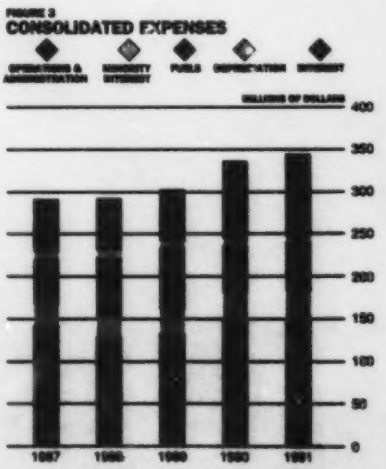
Depreciation expense amounted to $36.2 million in 1991. This increase of $2.2 million or 6.5% over 1990 reflects the fact that additional assets were placed in service in 1991.

CAPITAL EXPENDITURES

Expenditures for additions to property, plant and equipment in 1991 amounted to $50.6 million compared to $78.5 million in 1990. The 1991 additions involved construction of a new gas turbine in Happy Valley-Goose Bay as well as additions to plant, transmission and distribution facilities throughout the province.





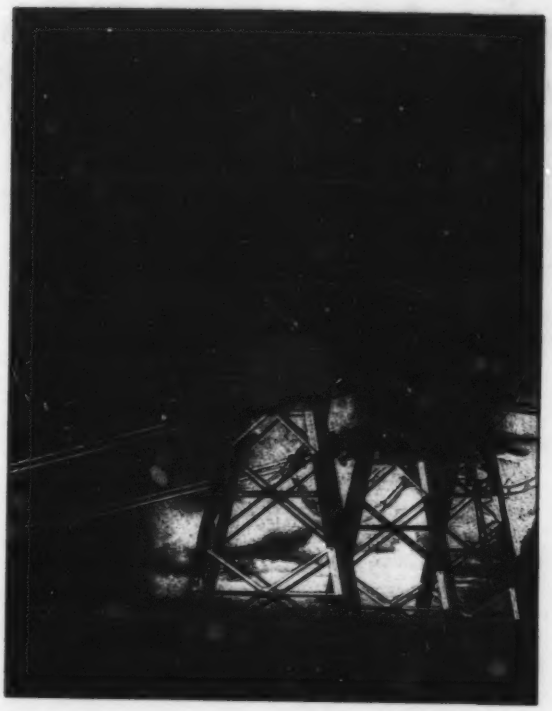


CF (L) CO

As in 1990, CF (L) Co's net income in 1991 had a positive effect on Hydro's investment in that Corporation. See Table A.

During 1991 CF (L) Co paid dividends of $26.8 million to Hydro and $10.4 million to Hydro-Québec. These payments compare with 1990 dividend payments of $4.2 and $1.5 million respectively.

Segmented information for 1991 is detailed in Table B.

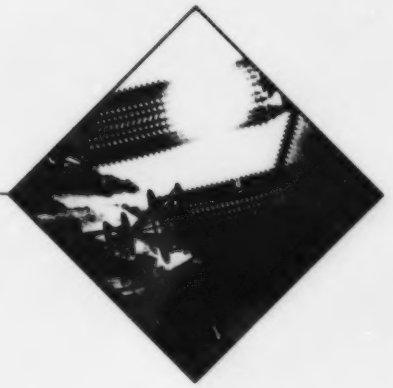


This 735 kV transmission tower supports one of the three transmission lines which span 1881 metres across the Churchill River.

TABLE A	1991	1990
	($ MILLIONS)	
SHARE OF EARNINGS	18.4	17.0
RENTAL AND ROYALTY	3.8	3.8
	22.2	20.8
LESS: INTEREST ON DEBT FINANCING THE INVESTMENT	7.6	10.0
NET INCOME EFFECT	14.6	10.8

TABLE B	HYDRO	CF(L)CO	TOTAL
		($ MILLIONS)	
REVENUE	281.0	87.7	368.7
EXPENSES			
Operations & Administration	67.8	29.6	97.4
Fuels	58.0	–	58.0
Power purchased	3.1	–	3.1
Depreciation	21.6	13.5	35.1
Interest	122.1	18.3	140.4
	272.6	61.4	334.0
NET OPERATING INCOME	8.4	26.3	34.7
INTEREST ON CF(L)CO ACQUISITION & OTHER DEDICATED COSTS	–	(5.0)	(5.0)
MINORITY INTEREST	–	(6.7)	(6.7)
NET INCOME TO HYDRO	8.4	14.6	23.0

FINANCIAL PERFORMANCE OF NEWFOUNDLAND AND LABRADOR HYDRO

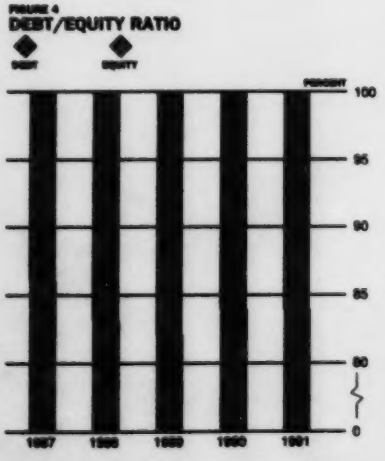


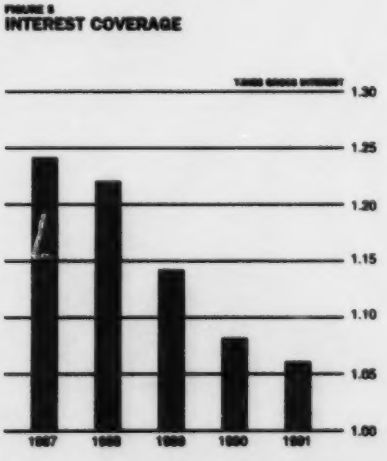
Hydro's financial performance for 1991 has resulted in a debt/equity ratio of 84/16. This ratio is the same as it was in 1990 but higher than the 82/18 ratio achieved immediately prior to 1990. The deterioration in Hydro's debt/equity ratio, as shown in Figure 4, reflects the inclusion of approximately $100 million of debt of the Power Distribution District of Newfoundland and Labrador, formerly a separate entity subsidized by government, in the calculation of the ratio.

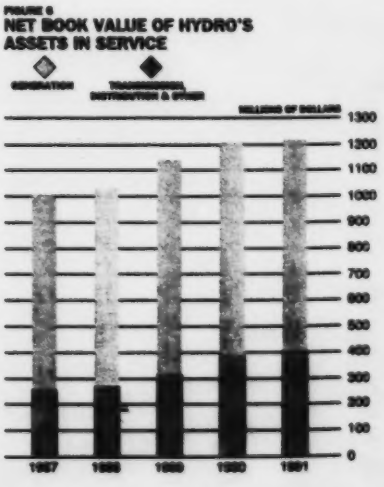
Hydro's interest coverage dropped below its traditional level (within the range of 1.15 times to 1.25 times gross interest) in recent years. This reflects the company's adjustment to the elimination of government subsidies for rural electrical distribution and the shielding of consumers from sudden "rate shocks".

Hydro's net income was $23.0 million in 1991, compared with $21.7 million in 1990. Hydro earned an overall interest coverage of 1.06 in 1991 compared with 1.08 in 1990. Figure 5 summarizes Hydro's interest coverage levels for the past five years.

The net book value of Hydro's assets in service during the past five years is shown in Figure 6.







FINANCIAL STATEMENTS

The consolidated financial statements of Newfoundland and Labrador Hydro and all information in the Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial statements include some amounts that are based on best estimates and judgements.

To assist Management in the discharge of these responsibilities, a system of internal control is maintained which is designed to provide reasonable assurance at reasonable cost that its assets are safeguarded from loss or unauthorized use, that transactions are executed in accordance with Management's authorization, and that the financial records are reliable for preparing timely financial information. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. The Internal Audit Department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The Board of Directors carries out its responsibilities primarily through its Audit Committee which is comprised solely of outside directors. The Audit Committee reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.

These financial statements have been audited by the external auditors, Peat Marwick Thorne, Chartered Accountants.

R. ANDREW GRANT
Vice-President, Finance and
Chief Financial Officer

DAVID W. MERCER
President and Chief Executive Officer

AUDITORS' REPORT

The Lieutenant-Governor in Council
Province of Newfoundland

We have audited the consolidated balance sheet of Newfoundland and Labrador Hydro as at December 31, 1991 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by The Newfoundland and Labrador Hydro Act, 1975, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

St. John's, Newfoundland
Canada
March 9, 1992

Peat Marwick Thorne
Chartered Accountants

CONSOLIDATED BALANCE SHEET

December 31, 1991, with comparative figures for 1990

		1991 ($000)	1990 ($000)
ASSETS	**FIXED ASSETS (NOTE 2)**		
	Fixed assets in service	**2,561,056**	2,527,981
	Less contributions in aid of construction	**86,527**	84,912
		2,474,529	2,443,069
	Less accumulated depreciation	**408,676**	376,561
		2,065,853	2,066,508
	Construction in progress	**29,358**	16,492
		2,095,211	2,083,000
	CURRENT ASSETS		
	Cash and term deposits	**67,491**	71,189
	Receivables	**64,961**	56,918
	Fuel and supplies at average cost	**32,448**	38,037
	Prepaid expenses	**1,820**	3,291
		166,720	169,435
	LONG-TERM RECEIVABLE	**–**	2,939
	INVESTMENT IN TWIN FALLS POWER CORPORATION LIMITED (NOTE 3)	**2,600**	2,986
	LOWER CHURCHILL OPTION (NOTE 4)	**5,200**	5,200
	DEFERRED CHARGES (NOTE 5)	**29,952**	38,780
		2,299,683	2,302,340
LIABILITIES AND SHAREHOLDER'S EQUITY	**LONG-TERM DEBT (NOTES 6 AND 7)**	**1,326,099**	1,397,574
	CURRENT LIABILITIES		
	Accounts payable and accrued liabilities	**33,810**	30,279
	Accrued interest	**35,177**	31,332
	Long-term debt due within one year	**190,846**	40,085
	Promissory notes (NOTE 7)	**47,035**	157,355
		306,868	259,051
	RATE STABILIZATION PLAN	**1,036**	–
	DEFERRED REVENUE	**21,544**	20,860
	MINORITY INTEREST IN CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED	**105,223**	108,940
	MINORITY INTEREST IN LOWER CHURCHILL DEVELOPMENT CORPORATION LIMITED	**14,750**	14,750
	SHAREHOLDER'S EQUITY		
	SHARE CAPITAL		
	Common shares of par value of $1 each. Authorized 25,000,000 shares; issued 22,503,942 shares.	**22,504**	22,504
	CONTRIBUTED CAPITAL (NOTE 4)		
	Lower Churchill Development	**15,400**	15,400
	Muskrat Falls Project	**2,165**	2,165
	Gull Island Project	**100,000**	100,000
	RETAINED EARNINGS	**384,094**	361,096
		524,163	501,165
		2,299,683	2,302,340

See accompanying notes *On behalf of the Board*

Director James N. Walker

Director Judy Laurd-Curtis

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31, 1991, with comparative figures for 1990

	1991 ($000)	1990 ($000)
REVENUE		
Energy sales	**363,086**	353,651
Rentals and royalties	**4,486**	4,522
Other	**2,467**	1,263
	370,039	359,436
EXPENSES		
Operations and administration (NOTE 9)	**97,372**	91,410
Fuels	**57,955**	54,304
Power purchased	**535**	422
Depreciation	**36,237**	34,041
Interest and guarantee fee (NOTE 8)	**148,237**	148,837
	340,336	329,014
NET INCOME FROM OPERATIONS	**29,703**	30,422
MINORITY INTEREST	**6,705**	8,747
NET INCOME FOR THE YEAR	**22,998**	21,675
RETAINED EARNINGS, BEGINNING OF YEAR	**361,096**	342,963
AMALGAMATION COSTS	**–**	(3,542)
RETAINED EARNINGS, END OF YEAR	**384,094**	361,096

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1991, with comparative figures for 1990

	1991 ($000)	1990 ($000)
CASH PROVIDED BY (USED IN)		
OPERATIONS		
Net income from operations	**29,703**	30,422
Add (deduct) items not involving a cash flow		
Depreciation	**36,237**	34,041
Amortization of deferred exchange loss	**2,685**	3,769
Other amortization	**2,833**	3,014
Rate stabilization plan	**1,036**	(16,528)
Other	**1,977**	1,134
	74,471	55,852
REDUCTION IN LONG-TERM RECEIVABLE	**2,939**	4,410
INCREASE IN DEFERRED REVENUE	**684**	8,922
NET CHANGE IN OTHER NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**10,186**	(18,383)
	88,280	50,801
FINANCING		
Long-term debt issued	**150,000**	7,514
Long-term debt retired	**(64,817)**	(67,668)
Dividends paid by a subsidiary to a minority interest	**(10,422)**	(1,497)
Increase (decrease) in promissory notes	**(110,320)**	110,355
	(35,559)	48,704
INVESTMENTS		
Additions to deferred charges	**(2,587)**	(1,657)
Additions to fixed assets	**(50,604)**	(78,509)
Dividends received from Twin Falls Power Corporation Limited	**565**	750
Net change in payables and receivables relating to investment activities	**(3,793)**	(2,775)
	(56,419)	(82,191)
NET (DECREASE) INCREASE IN CASH	**(3,698)**	17,314
CASH POSITION, BEGINNING OF YEAR	**71,189**	53,875
CASH POSITION, END OF YEAR	**67,491**	71,189

See accompanying notes

Year ended December 31, 1991

Newfoundland and Labrador Hydro ("Hydro") is incorporated under a special act of the Legislature of the Province of Newfoundland (the "Province") as a Crown corporation and its principal activity is the development, generation and sale of electric power. Hydro and its subsidiary companies are exempt from paying income taxes under Section 149 (1) (d) of the Income Tax Act.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles as established in Canada. In order to match revenues and costs and to conform with recommendations of the Board of Commissioners of Public Utilities of the Province of Newfoundland ("PUB"), Hydro's accounting for foreign exchange differs from that recommended by the Canadian Institute of Chartered Accountants.

◆ RATES AND REGULATIONS (EXCLUDING SALES BY SUBSIDIARIES)

The rates charged by Hydro, excluding sales by subsidiaries, are governed by the Electrical Power Control Act (the "Act"). Under the Act, Hydro is required to charge rates to all its customers designed "to recover the cost of service provided by it and a margin of profit sufficient to achieve and maintain a sound financial position so that it is able to achieve and maintain a sound credit rating in the financial markets of the world".

As of January 1, 1990 Hydro assumed responsibility for directly supplying electricity to rural customers previously served by the Board of Trustees of the Power Distribution District of Newfoundland and Labrador ("PDD"), a former retail customer of Hydro. The rates charged rural customers do not recover full costs but Hydro recovers the resulting deficit from other customers.

There are presently four long-term contracts with industrial customers which were entered into prior to the coming into being of the Act and which do not allow Hydro to recover costs plus a margin of profit and therefore require payments from the Province to Hydro in order to ensure that Hydro meets the requirements of the Act. These payments were $1,779,859 for the year ended December 31, 1991 (1990 $1,997,000).

Rates proposed for rural and retail customers from which approximately 81.3% of Hydro's revenue is derived (1990 81.3%) are subject to public hearings, following which the PUB recommends rates. If the Lieutenant-Governor in Council does not change the rates recommended by the PUB within 15 days, the recommended rates become effective. Should the Lieutenant-Governor in Council approve rates which are lower than those recommended by the PUB, the Act requires the Province to enter into financial and other arrangements as may be necessary to enable Hydro to conform to the Act quoted above. Rates, compatible with the Act, charged to industrial customers are set by the Board of Directors of Hydro.

◆ PRINCIPLES OF CONSOLIDATION

The consolidated balance sheet includes the accounts of Hydro and those of its subsidiary companies, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co"), (65.8% owned), Gull Island Power Company Limited ("GIPCo"), (100% owned) and Lower Churchill Development Corporation Limited ("LCDC"), (51% owned).

CF(L)Co is incorporated under the laws of Canada and has completed and commissioned a hydroelectric generating plant and related transmission facilities situated in Labrador and having a rated capacity of 5,428,000 kilowatts ("kW") (the "CF(L)Co Project"). A power contract with Hydro-Québec, dated May 12, 1969 ("Power Contract") provides for the sale of substantially all the energy from the CF(L)Co Project until 2041.

The cost of the investment in CF(L)Co exceeds the equity in the book value of the net assets acquired by $77,148,000. This amount is assigned to fixed assets and is being written off on a straight-line basis at the rate of 1 1/2% per annum. As at December 31, 1991 $19,672,000 (1990 $18,515,000) had been written off.

Under the terms and conditions of the Churchill Falls (Labrador) Corporation (Lease) Act, 1961, (the "Lease"), CF(L)Co must pay rentals and royalties to the Province annually. These rentals and royalties have been assigned to Hydro.

A portion of Hydro's shareholding in CF(L)Co is deposited in a voting trust pursuant to an agreement with Hydro-Québec.

GIPCo is incorporated under the laws of Canada. Its objective was to develop the hydroelectric potential at Gull Island on the Lower Churchill River in Labrador, and construct a direct current transmission system from Labrador to the island of Newfoundland (the "Gull Island Project"), (see Note 4).

LCDC is incorporated under the laws of Newfoundland and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River (the "Lower Churchill Development"), (see Note 4).

Although CF(L)Co owns voting control (66 2/3%) of Twin Falls Power Corporation Limited ("TWINCo"), its equity interest is 33 1/3% and as the principal assets and credit resources of TWINCo cannot be transferred to CF(L)Co, consolidation is not considered appropriate and the investment is carried on an equity basis.

◆ **FIXED ASSETS AND DEPRECIATION**

Expenditures for additions, improvements and renewals are capitalized and normal expenditures for maintenance and repairs are charged to operations.

HYDRO, GIPCO AND LCDC

Plant under construction includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to plant under construction at rates equivalent to the weighted average cost of the most recent funds borrowed. The average rate for the year ended December 31, 1991 was 9.96% (1990 12.74%).

Depreciation is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Depreciation on other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

ESTIMATED SERVICE LIVES OF THE MAJOR ASSETS ARE AS FOLLOWS:

GENERATION		TRANSMISSION		DISTRIBUTION	
Hydroelectric	50, 75 and 100 years	Lines	40 and 50 years	Distribution System	30 years
Thermal electric	25 and 30 years	Switching stations	40 years		
Diesel electric	20 years				

CF(L)CO

Depreciation is provided for at a rate of 1 1/2% per annum on a straight-line basis.

◆ **DEFERRED CHARGES**

DEBT DISCOUNT AND FINANCING EXPENSES

These costs are, in general, amortized on a straight-line basis over the lives of the respective debt issues.

DEFERRED FOREIGN EXCHANGE LOSS

CF(L)Co's unrealized foreign exchange loss, net of accumulated charges to income, is amortized over the remaining life of the related long-term debt.

In 1985, the PUB accepted the inclusion by Hydro of realized foreign exchange losses in rates charged to customers commencing in 1986. Any such loss, net of any gain, not recovered due to the operation of the rate setting process is deferred to the time of the next rate hearing for inclusion in the new rates set at that time.

DEFERRAL OF MAJOR REPAIRS

Subject to the PUB's approval, costs of major repairs of an extraordinary and non-recurring nature are amortized to income over periods ranging from five to ten years commencing in the year in which they are incurred. The PUB has accepted the inclusion of these charges in determining Hydro's regulated rates.

FEASIBILITY STUDIES AND OTHER

These costs are amortized on a straight-line basis over a five year period.

◆ **RATE STABILIZATION PLAN**

On January 1, 1986, Hydro, having received the concurrence of the PUB, implemented a rate stabilization plan which provides for the deferral of cost variances resulting from changes in fuel prices, levels of precipitation and load. The balance in the plan on each July 1 is amortized over a three year period. Adjustments required in retail rates to cover the amortization of the balance in the plan are automatic on July 1 of each year. Similar adjustments required in industrial rates are automatic on January 1 of each year.

◆ **REVENUE RECOGNITION**

Revenue is recorded on the basis of power deliveries made.

Deferred revenue represents amounts billed under the Power Contract in excess of amounts related to energy delivered. Amounts related to energy delivered in excess of the base amount, as defined by the Power Contract, represent unbilled receivables. Deferred revenue, net of an amount of $1,600,000 which has been included in accounts payable and accrued liabilities in 1991, is anticipated to become a long-term liability in 1992, repayable over a four year period with interest.

Differences between amounts related to energy delivered and the base amounts are determined annually and are subject to interest. These differences are also subject to periodic review and adjustment.

◆ **FOREIGN CURRENCIES**

Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

(a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.

(b) At each balance sheet date monetary assets and liabilities, except for long-term debt and its related current portion, are translated using exchange rates at that date.

(i) In the case of Hydro, long-term debt, including current portion, is translated in accordance with rate making practices, at exchange rates prevailing when the debt was incurred. Therefore, no recognition is given in the accounts to unrealized gains or losses.

(ii) Under the provisions of the Power Contract CF(L)Co's exposure for a foreign exchange loss is limited. CF(L)Co recovers a portion of the difference between actual exchange rates prevailing at the settlement date of its First Mortgage Bonds 7 3/4% Series A and a Weighted Average Exchange Rate as defined in the Power Contract.

The unrealized foreign exchange loss not recoverable under the Power Contract has been deferred and is being amortized to operations over the remaining life of the debt.

(c) Recorded gains or losses arising on foreign currencies are included with interest in the statement of income.

2. FIXED ASSETS

	Assets in Service	Contributions in aid of Construction	Accumulated Depreciation	Construction in Progress
		1991 ($000)		
HYDRO				
Generation plant				
Hydroelectric	705,197	20,877	9,226	51
Thermal	200,645	14	81,458	25,314
Diesel	35,290	13,014	5,896	230
Transmission & Distribution	409,923	48,476	29,565	2,025
Other	102,234	2,061	27,791	1,738
	1,453,289	84,442	153,936	29,358
GIPCO				
Project costs (Note 4)	97,689	–	–	–
CF(L)Co (a)				
Power facility and other equipment	985,196	2,085	254,740	–
LCDC				
Capital studies (Note 4)	24,882	–	–	–
	2,561,056	86,527	408,676	29,358
		1990 ($000)		
HYDRO				
Generation plant				
Hydroelectric	703,707	20,877	7,802	139
Thermal	201,030	14	73,163	6,549
Diesel	34,438	13,550	4,864	177
Transmission & Distribution	389,521	48,177	25,397	7,842
Other	101,076	2,294	25,264	1,785
	1,429,772	84,912	136,490	16,492
GIPCO				
Project costs (Note 4)	97,812	–	–	–
CF(L)CO (a)				
Power facility and other equipment	975,635	–	240,071	–
LCDC				
Capital studies (Note 4)	24,762	–	–	–
	2,527,981	84,912	376,561	16,492

(a) CF(L)Co assets are pledged as security for its long-term debt.

3. INVESTMENT IN TWIN FALLS POWER CORPORATION LIMITED

	1991 ($000)	1990 ($000)
SHARES, AT COST	2,500	2,500
EQUITY IN RETAINED EARNINGS, BEGINNING OF YEAR	486	1,050
EQUITY IN NET INCOME FOR THE YEAR	179	186
DIVIDENDS FOR THE YEAR	(565)	(750)
	2,600	2,986

4. LOWER CHURCHILL OPTION

LCDC was incorporated in 1978 pursuant to the provisions of an agreement (the "Principal Agreement"), between the Province and the Government of Canada. The Province and the Government of Canada own equity interests of 51% and 49% of LCDC, respectively. The Principal Agreement provides that future issues of Class A common shares shall preserve, as nearly as possible, this ratio of beneficial ownership. Hydro is the designate for the Province's shareholding in LCDC.

Upon agreement to continue with the Lower Churchill Development, GIPCo's assets and the hydroelectric development rights to the Lower Churchill River, (the "Water Rights"), will be acquired by LCDC pursuant to the provisions of an agreement between LCDC and the Province, (the "Option Agreement"). The purchase price in respect of GIPCo's assets will be a maximum of $100,000,000 less $5,200,000 representing the value assigned to 520 Class A common shares of LCDC issued pursuant to the signing of the Option Agreement. As consideration for GIPCo's assets, LCDC will issue a 10% Convertible Demand Debenture in the amount of $94,800,000. LCDC will issue 3,000 Class B common shares, without nominal or par value, to the Province in consideration of the Water Rights and the Province will transfer such shares to Hydro. The Option Agreement expires November 24, 1992 and it is not anticipated that there will be any loss upon sale of GIPCo's assets to LCDC.

Hydro holds 1,540 Class A common shares of LCDC which have a stated value of $10,000 each. 520 shares were acquired in 1979 pursuant to signing of the Option Agreement and 510 shares were acquired in each of the years 1980 and 1981, by way of capital contributions from the Province.

In 1980, the LCDC Board of Directors issued a report to the shareholders recommending development of the Muskrat Falls site and the transmission of the power to the island of Newfoundland. Engineering studies for the transmission system have been completed but a final commitment to the project awaits shareholders' approval.

5. DEFERRED CHARGES

	Cost	Accumulated Amortization	Net Book Value 1991 ($000)	Net Book Value 1990 ($000)
DEBT DISCOUNT	30,489	18,126	12,363	12,147
MAJOR REPAIRS	498	397	101	153
FEASIBILITY STUDIES AND OTHER	5,373	2,602	2,771	3,181
DEFERRED FOREIGN EXCHANGE LOSSES, NET	29,631	14,914	14,717	23,299
	65,991	36,039	29,952	38,780

6. LONG-TERM DEBT

	Hydro ($000)	CF(L)Co ($000)	1991 Total ($000)	1990 Total ($000)
Summary of long-term debt				
Bonds, notes and debentures	824,223	425,513	1,249,736	1,317,921
Other	76,363	–	76,363	79,653
	900,586	425,513	1,326,099	1,397,574

At December 31, 1991 it is estimated that required repayments of long-term debt over the next five years will be as follows:

	Bonds, Notes & Debentures ($000)	Loans ($000)	Capitalized Lease ($000)	Total ($000)
1992	187,553	3,084	209	190,846
1993	37,587	3,298	233	41,118
1994	39,414	3,528	260	43,202
1995	45,001	3,775	290	49,066
1996	126,325	4,039	324	130,688

Details of long-term debt are as follows:

Hydro

Bonds, notes and debentures, redeemable at the option of Hydro at various times and at various rates, none of which exceeds 100 1/2% of par.

Series	Interest Rate %	Year of Issue	Year of Maturity	Foreign Funds ($000)	1991 ($000)	1990 ($000)	
	8 1/8	1972	1992		**15,000**	15,000	(a)
	4 3/4	1975	1992	S.Fr. 75,000	**28,286**	28,286	
	15 1/8	1982	1992	U.S. 100,000	**118,175**	124,072	
	7 3/4	1968	1993	U.S 25,000	**26,773**	26,773	(a)
	9	1969	1994	U.S. 7,350	**7,902**	8,385	
	9 7/8	1979	1994	U.S. 23,000	**26,587**	36,990	
	10 3/4	1975	1995		**25,000**	25,000	(a)
	7	1985	1995	¥ 7,000,000	**37,349**	37,349	
S	9 7/8	1986	1996		**100,000**	100,000	
T	10 1/2	1987	1997		**100,000**	100,000	(b)
U	9 7/8	1988	1998		**100,000**	100,000	(c)
	8 7/8	1974	1999		**20,000**	20,000	(a)
M	11 1/4	1979	1999		**110,000**	110,000	(a)
	10 1/4	1976	2001		**30,000**	30,000	(a)
K	10 1/4	1978	2001		**35,000**	35,000	(a)
N	13 3/8	1981	2001		**75,000**	75,000	(a)
W	10 3/4	1991	2001		**150,000**	–	
	10	1977	2002		**30,000**	30,000	(a)
J	10	1977	2002		**35,000**	35,000	(a)
L	10	1978	2003		**40,000**	40,000	(a)
V	10 1/2	1989	2014		**125,000**	125,000	(a)
					1,235,072	1,101,855	
Less sinking funds					**240,705**	206,708	
					994,367	895,147	
Less payments due within one year					**170,144**	20,310	
					824,223	874,837	

(a) A sinking fund has been established for this issue.

(b) The holder of any debenture has the right to elect that such debenture shall mature on December 15, 1992 and Hydro has the right to increase the rate of interest on all debentures of this issue from that date to December 15, 1997.

(c) Interest will increase to 10 1/8% on August 2, 1993. The holder of any debenture has the right to elect that such debenture shall mature on August 2, 1993 and Hydro has the right to further increase the rate of interest on all debentures of this issue from that date to August 2, 1998.

Based on exchange rates in effect on December 31, 1991, the approximate amount required to discharge foreign currency debt obligations recorded in the accounts in Canadian dollars as $245,072,000 would be $310,809,000 (1990 as $261,855,000 would be $319,827,000).

Other Long-Term Debt	Years of Maturity	Interest Rate %	1991 ($000)	1990 ($000)
Government of Canada Loans	2003 to 2014	5 1/4 to 7 9/10	72,817	75,697
Capitalized lease obligation for computerized energy management system	2005	11 3/10	6,839	7,026
			79,656	82,723
Less payments due within one year			3,293	3,070
			76,363	79,653

CF(L)Co	1991 ($000)	1990 ($000)
First Mortgage Bonds		
7 3/4% Series A due December 15, 2007 (U.S. $312,744,000)	333,028	346,998
7 7/8% Series B due December 15, 2007	31,422	32,717
General Mortgage Bonds		
7 1/2% due three years after latest maturity of any First Mortgage Bonds	78,472	80,074
	442,922	459,789
Less payments due within one year	17,409	16,705
	425,513	443,084

The First Mortgage Bonds, Series A and B, are repayable in fixed semi-annual and in contingent annual sinking fund instalments which commenced in June 1978.

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments which commenced in June 1980. Each payment is equal to 1% of the aggregate principal amount outstanding on January 1, preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Under the terms of long-term debt instruments, CF(L)Co may pay cash dividends only out of earnings, as defined, accumulated from September 1, 1976.

7. GUARANTEES BY THE PROVINCE

The Province has unconditionally guaranteed the principal and interest on promissory notes and long-term debt, except for the Swiss franc loan and the debt of CF(L)Co.

The Province charges Hydro a guarantee fee of one percent annually on its outstanding guaranteed long-term debt.

8. INTEREST EXPENSE AND GUARANTEE FEE

	1991 ($000)	1990 ($000)
GROSS INTEREST		
Long-term debt	170,877	169,515
Promissory notes	13,069	13,038
	183,946	182,553
AMORTIZATION OF DEBT DISCOUNT AND FINANCING EXPENSE	1,745	1,682
EXCHANGE LOSS ON SINKING FUND TRANSACTIONS AND RETIREMENT OF DEBT	2,552	4,897
	188,243	189,132
LESS:		
Recovered from Hydro-Québec (a)	12,448	13,571
Interest during construction	1,854	5,013
Interest earned	35,130	31,631
NET INTEREST EXPENSE	138,811	138,917
DEBT GUARANTEE FEE	9,426	9,920
NET INTEREST AND GUARANTEE FEE	148,237	148,837

(a) Under the terms of the Power Contract, CF(L)Co recovers the difference between interest calculated at the rates prescribed in the Power Contract and interest paid on its long-term debt.

Also, CF(L)Co can require Hydro-Québec to make additional advances, against the issue of units of Subordinate Debentures and shares of common stock, to service its debt and to cover its expenses if funds are not otherwise available.

9. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Under the terms of a sublease with TWINCo expiring on December 31, 2014, CF(L)Co is required to deliver to TWINCo, at an agreed price, horsepower equivalent to the installed horsepower of the TWINCo plant and to maintain TWINCo's plant and equipment.

(b) Hydro has received claims instituted by various companies with respect to construction costs, outages and plant shutdowns. The aggregate of these claims, less any amounts that have been provided for in Hydro's financial statements is approximately $2,429,000 (1990 $3,603,000). The final resolution of these matters is currently under negotiation.

(c) All employees are covered by the Province's Public Service Pension Plan to which contributions are made equally by employers and employees. During 1990, the two Churchill Falls private pension plans were wound up and approximately $5,900,000 of surplus funds were returned to the company and credited against operating expenses in 1990.

(d) Outstanding commitments for capital projects total approximately $16,253,000 at December 31, 1991 (1990 $20,569,000) of which approximately $10,400,000 will be recovered from a Churchill Falls shareholder as contributions in aid of construction.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation adopted in the current year.

FINANCIAL STATISTICS

(in millions of dollars) Years ended December 31

		1991	1990	1989	1988	1987	1986	1985	1984	1983	1982
OPERATING RESULTS	REVENUE										
	Energy sales	**363.0**	353.6	319.4	324.9	325.4	314.0	323.7	268.9	236.1	225.0
	Rentals and royalties	**4.5**	4.5	3.8	5.6	5.7	5.9	5.4	8.5	4.9	5.3
	Other	**2.5**	1.2	1.2	1.6	1.1	0.9	1.5	*37.0	1.8	2.3
		370.0	359.3	324.4	332.1	332.2	320.8	330.6	314.4	242.8	232.6
	EXPENSES										
	Operations and administration	**97.4**	91.4	65.8	59.4	54.9	54.2	51.1	52.7	47.4	48.1
	Fuels	**58.5**	54.7	69.5	71.2	61.8	53.6	95.1	49.4	31.7	40.2
	Depreciation	**36.2**	34.0	26.2	24.3	22.9	23.0	22.9	22.3	22.2	22.4
	Interest	**148.2**	148.8	134.6	127.2	140.1	144.2	121.4	117.0	115.4	91.2
		340.3	328.9	296.1	282.1	279.7	275.0	290.5	241.4	216.7	201.9
	NET INCOME BEFORE MINORITY INTEREST	**29.7**	30.4	28.3	50.0	52.5	45.8	40.1	73.0	26.1	30.7
	MINORITY INTEREST	**6.7**	8.7	4.4	8.8	9.1	9.3	11.0	22.1	9.7	10.6
	NET INCOME	**23.0**	21.7	23.9	41.2	43.4	36.5	29.1	50.9	16.4	20.1
	CONTRIBUTIONS TO NET INCOME										
	Hydro Corporate	**8.4**	10.9	17.0	24.5	27.8	22.1	15.0	19.7	14.3	16.5
	CF(L)Co	**14.6**	10.8	6.9	16.7	15.6	14.4	14.1	31.2	2.1	3.6
FINANCIAL POSITION	TOTAL CURRENT ASSETS	**166.7**	169.4	142.0	133.9	138.6	126.7	140.4	135.4	112.3	183.4
	TOTAL CURRENT LIABILITIES	**306.9**	259.1	172.1	199.0	263.6	173.0	224.2	168.5	147.0	121.2
	NET WORKING CAPITAL	**(140.2)**	(89.7)	(30.1)	(65.1)	(125.0)	(46.3)	(83.8)	(33.1)	(34.7)	62.2
	FIXED ASSETS	**2,503.9**	2,459.6	2,382.0	2,295.3	2,203.0	2,167.1	2,141.8	2,108.2	2,011.9	1,864.1
	ACCUMULATED DEPRECIATION	**408.7**	376.6	342.2	314.8	289.6	265.3	241.5	218.4	197.5	174.8
	FIXED ASSETS, NET	**2,095.2**	2,083.0	2,039.8	1,980.5	1,913.4	1,901.8	1,900.3	1,889.8	1,814.4	1,689.3
	OTHER ASSETS	**37.8**	49.9	70.2	71.1	94.5	66.8	63.7	77.7	35.8	35.2
	LONG-TERM DEBT	**1,326.1**	1,397.5	1,443.1	1,389.4	1,346.7	1,422.7	1,411.4	1,474.3	1,427.7	1,425.5
	OTHER LIABILITIES	**142.6**	144.5	153.8	138.0	118.3	125.1	130.8	151.2	129.8	119.0
	SHAREHOLDER'S EQUITY	**524.1**	501.2	483.0	459.1	417.9	374.5	338.0	308.9	258.0	242.2
EMPLOYEES AT YEAR END	PERMANENT	**1,239**	1,261	1,215	1,219	1,220	1,201	1,196	1,197	1,213	1,232
	TEMPORARY	**131**	185	164	215	135	132	113	107	93	95
	TOTAL	**1,370**	1,446	1,379	1,434	1,355	1,333	1,309	1,304	1,306	1,327

**Includes unusual item relating to a sale of power adjustment of $35.3*

OPERATING STATISTICS

Years ended December 31

		1991	1990	1989	1988	1987	1986	1985	1984	1983	1982
INSTALLED GENERATING CAPACITY AT END OF PERIOD (rated kW in thousands)	CP(L) Co	**5,428**	5,428	5,428	5,428	5,428	5,403	5,403	5,225	5,225	5,225
	TWINCo	**225**	225	225	225	225	225	225	225	225	225
	HYDRO										
	Hydraulic	**899**	899	898	890	890	890	890	763	763	679
	Thermal	**628**	628	623	598	573	573	573	573	573	573
	Diesel	**58**	63	5	5	5	5	5	5	5	5
	Total	**7,238**	7,243	7,179	7,146	7,121	7,096	7,096	6,791	6,791	6,707
ELECTRIC ENERGY GENERATED, NET OF STATION SERVICES (kW.h in millions)	CP(L)Co	**29,334**	29,174	27,455	33,899	33,308	33,721	34,777	38,910	33,819	38,242
	HYDRO										
	Hydraulic	**4,305**	3,762	3,787	4,154	3,063	3,898	3,449	4,086	3,912	3,134
	Thermal	**1,460**	1,866	2,029	1,412	2,245	1,255	1,725	757	575	1,121
	Diesel	**73**	77	—	—	—	—	—	—	—	—
	Total available for sale	**35,172**	34,879	33,271	39,465	38,616	38,874	39,951	43,753	38,306	42,497
ELECTRIC ENERGY SALES (kW.h in millions)	CP(L)Co										
	Export	**26,330**	26,131	24,343	30,702	30,367	30,666	31,833	35,989	31,188	35,715
	HYDRO										
	Utility	**4,129**	4,055	4,402	4,018	3,755	3,590	3,536	3,246	3,033	2,992
	Rural	**560**	554								
	Industrial	**1,520**	1,502	1,932	2,054	2,058	2,059	1,975	1,856	1,783	1,628
	Total	**32,539**	32,242	30,677	36,774	36,180	36,315	37,344	41,091	36,004	40,335
AVERAGE SALES REVENUE (cents per kW.h)	CP(L)Co										
	Export	**0.31**	0.29	0.31	0.29	0.29	0.29	0.29	0.26	0.29	0.26
	HYDRO										
	Utility	**4.53**	4.34	4.02	4.23	4.33	4.36	4.45	3.63	3.12	2.98
	Rural	**7.39**	8.98	—	—	—	—	—	—	—	—
	Industrial	**3.43**	3.42	3.14	3.22	3.50	3.28	3.75	3.02	2.89	2.60
TRANSMISSION LINES (kilometres)	CP(L)Co										
	735 kV	**608**	608	608	608	608	608	608	608	608	608
	230 kV	**431**	431	431	431	431	431	431	431	431	431
	HYDRO										
	230 kV	**1,531**	1,531	1,531	1,531	1,531	1,531	1,531	1,531	1,408	1,353
	138kV	**1,353**	1,353	1,073	1,073	1,039	916	916	916	916	916
	69kV	**614**	614	622	558	539	539	539	539	539	455
	Total	**4,537**	4,537	4,265	4,201	4,148	4,025	4,025	4,025	3,902	3,763
PEAK DEMAND (kW in thousands)	CP(L)Co System	**5,619**	5,622	5,620	5,622	5,765	5,203	5,614	5,530	5,562	5,685
	Hydro System	**1,281**	1,316	1,230	1,232	1,065	1,084	1,009	1,013	1,040	881

BOARDS OF DIRECTORS

◆

Newfoundland and Labrador Hydro

◆

Lower Churchill Development Corporation Limited

Cyril J. Abery[1]
Chairman

David Burpee
Vice-Chairman

David W. Mercer

Daniel E. Williams

John P. Henderson

David S. Templeton

◆

Gull Island Power Company Limited

Cyril J. Abery[1]
Chairman

David W. Mercer

Leo J. Cole

R. Andrew Grant

Samuel D. Banfield

◆

Churchill Falls (Labrador) Corporation Limited

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David S. Templeton

John P. Henderson

Victor L. Young

James R. Chalker

Jean Claude Roy

Jean Bernier

Leo J. Cole
ex officio

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William Case

Shirley Frost

John Gale

Janet C. Gardiner

Gordon Gosse

Norman J. Whalen[2]

Roland T. Martin

Henry (Harry) Baikie[3]

Trudy Pound-Curtis

David W. Mercer
ex officio

◆

1 - retired December 31, 1991
2 - appointed January 25, 1991
3 - appointed January 18, 1991

◆

OFFICERS

◆

Newfoundland and Labrador Hydro

Cyril J. Abery[1]
Chairman and Chief Executive Officer

David W. Mercer
President

Leo J. Cole
Executive Vice-President

Samuel D. Banfield[2]
Vice-President, Engineering and Construction

David W. Reeves[3]
Vice-President, Engineering and Construction

R. Andrew Grant
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Vice-President, Employee Relations

T. David Collett
Vice-President, Operations

Derek W. Osmond
Vice-President, Rates and Corporate Services

Maureen P. Greene
Vice-President, General Counsel and Corporate Secretary

John C. Roberts
Corporate Controller

Robert D.C. Taylor
Treasurer

Peter A. Hickman
Assistant Corporate Secretary

Gerald C. Bowers
Assistant Treasurer

Mark G.S. Bradbury
Assistant Corporate Controller

◆

Churchill Falls (Labrador) Corporation Limited

Cyril J. Abery[1]
Chairman and Chief Executive Officer

Leo J. Cole
President

David W. Reeves[2]
Vice-President, Operations and Engineering

Samuel D. Banfield[3]
Vice-President, Operations and Engineering

R. Andrew Grant
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John C. Roberts
Corporate Controller

Robert D.C. Taylor
Treasurer

Peter A. Hickman
Assistant Corporate Secretary

Gerald C. Bowers
Assistant Treasurer

Mark G.S. Bradbury
Assistant Corporate Controller

◆

1 - Retired December 31, 1991
2 - Resigned August 4, 1991
3 - Appointed August 5, 1991

◆

Gull Island Power Company Limited

Cyril J. Abery[1]
Chairman and Chief Executive Officer

David W. Mercer
President

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Executive Vice-President

Samuel D. Banfield
Vice-President, Engineering and Construction

R. Andrew Grant
Vice-President, Finance and Chief Financial Officer

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Assistant Corporate Secretary

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Assistant Treasurer

Mark G.S. Bradbury
Assistant Corporate Controller

◆

Lower Churchill Development Corporation Limited

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Chairman

David Burpee
Vice-Chairman

David W. Mercer
President and Chief Executive Officer

Maureen P. Greene
Corporate Secretary

Robert D.C. Taylor
Treasurer

Peter A. Hickman
Assistant Corporate Secretary

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These transmission line towers are typical of thousands maintained throughout the Province by the Hydro Group.

◆

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